

Real Water Markets: Another Leadership Imperative

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April 17, 2006

Political and economic freedom plus the rule of law and free enterprise yields the prosperity that we enjoy, and its absence explains why most of the world lags so far behind us. Its absence also explains why some sectors of our economy lag so far behind the rest. We use our resources more wisely than most of the rest of the world because market-determined prices guide most of our resource use decisions.

Changing market prices are a powerful information and incentive system. That system has an impressive track record because every price is the result of a serious, continuous, money-where-your-mouth-is indirect conversation about priorities and costs. It involves the entire population, so it harnesses much more information than the central planning alternative, which is just guesswork by a handful of over-extended public officials spending someone else's money. Central planning has an awful track record, not just for economic inefficiency and poverty, but for creeping tyranny.

Market-determined prices will address Texas' water management challenges more effectively than our current system of limited markets and central planning. Willing buyer – willing seller exchange of privately **owned** water rights will tell us what each basin's lowest value water uses are worth. Until we know what price existing users would sell water for, we cannot tell which potential water projects are wise investments. Price differences between water basins tell us if inter-basin transfers make economic sense, and tell us what restrictions on inter-basin transfers cost. The same price information is an essential element of water conservation planning.

Texas surface water law allows water rights' exchanges, but transfers are over-regulated. For example, water rights holders cannot change water uses without state permission. Water rights are just revocable permission to use state water, which undermines exchange, investment in water-related infrastructure, and promotes wasteful use-it-or-lose-it usage. Texas groundwater law has not even come that far. Many groundwater basins have long since reached the point where recharge can no longer keep up with unlimited pumping, which means that efficient use requires quantified pumping rights and a price system. But only the Edwards Aquifer area of South Central Texas has quantified pumping rights, and water users cannot trade directly. Much of the Edwards Aquifer permitted pumping is locked into historic and mostly low water uses. Those are very expensive restrictions. How expensive? Only a system of market-determined prices can reveal the true amount.

The legal infrastructure needed to foster market-determined surface- and ground-water prices will have to incorporate numerous geologic, hydrologic, and historic use

details that are beyond the scope of this commentary. But nothing about issues like third-party claims, drought management, and environmental values preclude the government from severely curtailing its influence over water use. Getting there is just a matter of leadership; selling the correct, limited government policies to a general public interested in freedom-based new ideas.